



News Release

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**IRS COMMISSIONER CHARLES O. ROSSOTTI'S ORAL STATEMENT
BEFORE THE SENATE FINANCE COMMITTEE
APRIL 5, 2001**

Mr. Chairman and Distinguished Members of the Committee, I am pleased to discuss the IRS's efforts to combat an important threat to our tax administration system: namely organized tax evasion. I particularly want to commend you, Mr. Chairman, for focusing today on this threat. It is essential that the vast majority of honest taxpayers who pay what they owe under the law have confidence that their neighbors and competitors are playing by the same rules.

Today, in a wide range of guises, there are individuals and organized groups attempting to mislead or entice taxpayers into believing that there is way out of paying taxes. Some of these groups use the Internet to promote or advertise their schemes, which range from complex prepared documentation packages involving trusts and offshore bank accounts to false arguments that businesses do not need to pay employment and withholding taxes.

In 2001, the IRS issued two nationwide alert warning taxpayers not to fall victim to a number of tax scams. They included tax credits or refunds related to reparations for slavery to illegal ways to "untax" yourself. One of the schemes that has recently received considerable publicity tells employers that they do not have to withhold federal income tax or employment taxes from the wages paid to their employees. Taxpayers can get more information on this bogus scheme by going to our web site at www.irs.gov

In terms of practical impact, the most important of the various tax schemes are those that actually sell packages to upper income taxpayers that claim to permit income taxes to be reduced or eliminated. Basically, these packages use a flurry of paperwork involving domestic and offshore trusts and foreign bank accounts to appear to move income into tax-free countries or legal vehicles, while taxpayers still maintain effective control over their funds. The chart in front of you is a simplified depiction of one such scheme.

Most of those who buy into these schemes are upper-income taxpayers, professionals and business persons with at least six-figure incomes. The promoters run the gamut from bankers to convicted con men to crooked return preparers to Americans living abroad who make a living selling services in connection with these schemes.

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The IRS first became aware of the emerging magnitude of this problem in mid 1996 when John Mathewson, the owner of a bank in the Grant Cayman Islands, began cooperating with Federal authorities and provided financial information on hundreds of individuals who appeared to be engaging in on-going tax fraud. In April 1997, the IRS issued an official notice publicly cautioning taxpayers to be wary of trust arrangements promising benefits that are not allowable under the tax laws.

Although we have no really accurate measures of the size of this problem, we do have enough information to know it is a major problem. One respected expert on offshore tax havens and money laundering, Mr. Jack Blum, estimates that there are \$3 trillion in assets in tax haven banks and that the annual revenue loss to the Treasury is \$70 billion. On October 27, 2000, the U.S. District Court in the Southern district of Florida authorized the IRS to examine the banking records of tens of thousand of U.S. persons with offshore accounts in the Caribbean.

With our new IRS organization and strategic plan in place, we are able to be much more effective in combating this threat with a coordinated strategy involving a full range of tools, from public education to civil and criminal enforcement against both promoters and participants in these schemes.

In terms of public education, we issued press releases and alerts to the public and publications for use by legitimate practitioners in educating their clients, such as our "Too Good to be True Trusts" brochure. We constantly post educational material on our web site, which is receiving over 2 billion hits this year. Recently we opened up a specialized part of our web site for small business and self employed taxpayers which provides one-stop tax information, including warnings and examples of what to beware of. A blow up of some of our web pages is shown on the chart in front of you.

One of our most important new initiatives to identify and combat these schemes is K-1 Matching. In 2002, the IRS will change its processing procedures and begin processing and matching K-1s reporting almost \$700 million of income and also, importantly, reported losses on trusts and passthroughs. This will help us to find potential problem cases and to follow up with audits when necessary.

We have developed specialized training programs for our agents on these trust related topics, and on the civil side, our agents are currently auditing 17 promoters and evaluating 161 abusive schemes for possible examination or injunctive action. Earlier this year, one permanent injunction against some promoters was granted and a \$1.25 million penalty assessed. Another injunction request is currently pending before a district court.

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On the Criminal side, IRS Criminal Investigation has already obtained 117 convictions of individuals for illegal trust schemes and has 135 open investigations, including 65 of promoters. On February 28, 2001, CI conducted its largest and most extensive enforcement action in the history of the IRS, conducting three dozen search warrants simultaneously in a series of related investigations of suspected promoters of fraudulent trust schemes.

I should note that the civil and criminal penalties are stiff for the investors and promoters convicted of these illegal schemes. Civil fraud can include a penalty of up to 75 percent of the underpayment of the tax that's attributed to the fraud in addition to the taxes owed. Judges have recently imposed lengthy prison sentences, including one of 11 years, and steep fines against promoters.

Mr. Chairman, in conclusion, the IRS is working hard to combat the organized tax evasion that is proliferating today. I promise you that diligence and fairness will be our twin beacons. They will guide us as we seek to uncover these schemes and pursue those who promote and use them to avoid paying their taxes and put an extra burden those who do pay honestly.

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